

HOUSE BILL REPORT

SHB 1981

As Passed House:

March 6, 2009

Title: An act relating to modifying the rural county tax credit provided in chapter 82.62 RCW.

Brief Description: Modifying the rural county tax credit provided in chapter 82.62 RCW.

Sponsors: House Committee on Finance (originally sponsored by Representatives Driscoll, Parker, Wood and Ormsby).

Brief History:

Committee Activity:

Finance: 2/24/09, 3/2/09 [DPS].

Floor Activity

Passed House: 3/6/09, 95-0.

Brief Summary of Substitute Bill

- Modifies the eligibility to qualify for the rural county business and occupation tax credit by lowering the requirement that a business must expand an existing workforce to 10 percent.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 9 members: Representatives Hunter, Chair; Hasegawa, Vice Chair; Orcutt, Ranking Minority Member; Parker, Assistant Ranking Minority Member; Condotta, Conway, Ericks, Santos and Springer.

Staff: Joseph Archuleta (786-7192)

Background:

Washington's major business tax is the business and occupation (B&O) tax. The B&O tax is imposed on the gross receipts of business activities conducted within the state without any deduction for the costs of doing business. Depending on the types of activities conducted, a business may have more than one B&O tax rate. There are a number of different rates. The

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main rates are: 0.471 percent for retailing, 0.484 percent for manufacturing, wholesaling, and extracting; and 1.5 percent for professional and personal services, as well as activities not classified elsewhere.

A credit against the B&O tax is provided for manufacturing, research and development, or computer service firms that create new jobs in rural counties or community empowerment areas. Rural counties are defined as those with an average population density of less than 100 persons per square mile. Community empowerment areas exist in King, Kitsap, Pierce, and Spokane counties. The amount of the credit is \$2,000 for each new job created, unless the new position is paid wages (including benefits) of more than \$40,000 annually, in which case the credit is \$4,000. To qualify, the firm must increase its total employment in an eligible area by at least 15 percent. The amount of credit is capped at \$7.5 million annually for all firms.

In the 2007 session the jobs credit program was changed. The 15 percent job increase percentage is calculated by comparing the employment in the four full calendar quarters after the employees are hired to employment in the four full calendar quarters before the employees were hired. Prior to 2007 the 15 percent job increase percentage was calculated by the average increase (full-time employment positions) over the preceding calendar year.

Summary of Substitute Bill:

The substitute bill lowers the eligibility requirement that a business must expand an existing workforce to a 10 percent average increase over the four calendar quarters, after the quarter in which a position is filled, to qualify for the rural county B&O tax credit.

The act applies to applications for credit received by the Department of Revenue on or after January 1, 2010.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect on January 1, 2010.

Staff Summary of Public Testimony:

(In support) This bill is really about job creation. We have in front of us the ability for manufacturing firms and research and development companies to create new jobs. There are currently six rural community empowerment zones throughout the state and we can use this tool wherever possible to create jobs. Spokane has the most active community empowerment zone since we began it in 2001. Forty companies have taken advantage of this tool and the job creation has resulted is over 1,200 jobs in our area.

Removing the 15 percent qualifying threshold on the B&O tax credit makes sense in this tough economy. Rewarding manufacturers that create new jobs in other key industries that create jobs can boost our state economy. These companies and these sectors of our state economy provide at least a twofer, in other words, for every job we can create in new sectors

at least another job is supported in other sectors. So removing the 15 percent threshold helps reward growing companies at a key time. This is one of the best tools we have in our toolkit. It's hard to qualify, 15 percent employment growth in one year is a hard threshold to meet.

(Opposed) None.

Persons Testifying: Representative Driscoll, prime sponsor; David McFadden, Yakima County Development Council; and Jim Hedrick, Greater Seattle, Inc.

Persons Signed In To Testify But Not Testifying: Bill Stewart, Kitsap Economic Development Alliance.